SUPERMARKET BUSINESS

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THE • THINKING • MAGAZINE • FOR • THINKING • PEOPLE

...CK IN TEXAS?

ALSO IN THIS ISSUE:

- Foodservice Operations Review
- Fresh Fields: Where Purity Reigns Supreme
- Mini-lab vs. Micro-lab: A Photo Finish?

SUPERMARKET BUSINESS

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LEAN AND MEAN RE-EXAMINED

By Ken Partch, Editor-in-Chief

It was popular and very trendy in the Eighties to talk about how XYZ company had restructured to go "lean and mean" into its marketplace. At about the same time, there was a lot of talk about how the U.S. was moving away from being a manufacturing nation into being a "service" nation. There was always something about both notions that bothered me and anybody I could find to talk about them.

For one thing, I always felt that somebody had to make something—something other than hamburger. For another I wondered what became of those people who lost their jobs who were no longer consumers. In my fantasies I thought that perhaps we would have to create a class of people who were designated consumers. If they didn't have the money, we'd have to find a way to give it to them. I haven't been far wrong.

This is not to suggest that a company should not always be willing to cut out unnecessary labor cost. Anybody worthy of the title of manager owes it to his owners (or stockholders) and his company to eliminate any unnecessary cost. But I would hesitate to make this a working goal in and of itself.

If I had invested time and energy into training a talented person, I would want to be able to find useful things for that person to do to help advance the company. Delta Airlines is a company that comes to mind that has always tried to do this—and they haven't done badly. In the not too distant past, it was unthinkable for a long-term employee still doing a good job in the food industry to be suddenly terminated.

The Japanese and the Germans still manage to do pretty well with this attitude (even if it was their cost of dealing with powerful unions). It has its benefits, too, in helping to maintain market stability in such areas as retailing. For example, it isn't too bad to have supermarkets in university towns and state capital towns. Put the two together, and you get such nice markets as Madison, Wis., Columbus, Ohio, and Oklahoma City. These are markets that don't experience big ups and downs in their economies.

Nobody can really make a successful argument for anything but lean production, in the manner of the Japanese car manufacturers. But they do it with lean management rather than by simply eliminating production workers, or by speeding up the line to make everybody work harder and faster.

The point I am attempting to make is that retailers (and of course, wholesalers) should be mighty careful about advocating too strenuously that the general work force should be cut to the bone. Remember, these may be your customers. The same goes for manufacturers of food and grocery products. A lot of the gains in the grocery industry over the past decade, and perhaps since World War II, have been the result of inflation—otherwise known as price increases—not necessarily increases in tonnage. Ask any wholesaler.

We should be mighty careful about advocating too strenuously that the general work force should be cut to the bone. Remember, these may be your customers.

It is also not much discussed, but I suspect that we are just beginning to feel the results of the impact of general computerization or automation (as we used to call it). Everybody in the grocery industry likes to talk about the wonderful application of computers and scanners. But anybody who remembers can tell you that the real reason that most scanners were installed was to "save" money in manhours at the checkstand.

The scanner people did a beautiful job of selling that idea, even if it wasn't true. It wasn't true because there are still several consultants around who can demonstrate that you can train a good cashier in the ten-key pad touch system to be just as fast at pricing and bagging as a scanner-bagger. (Of course there are still advantages to scanning—but largely unused.)

Von Neumann, the father of cybernetics and automation, was very much concerned about the social and economic impact of computers. We are experiencing the impact of both right now in many parts of the country. Of course, it creates new jobs and new industries, you say. And that's right. But the temporary (we hope) dislocations can be serious indeed.

We are experiencing the impact of this in New York, and I suspect other cities, in publishing and in the financial industries for just two. The financial industry is doing just great in New York, but the re-employment has yet to begin. Likewise the real estate industry. In publishing, the computer has replaced whole segments of the industry, in typesetting and four-color reproduction. Indeed, the entire white collar segment of the economy is beginning to feel the impact of automation as much as the manufacturing segment.

We haven't learned to deal with this phenomenon as yet. In fact, we haven't even spent a great deal of time or energy being concerned about it. But department stores have felt its impact. And many cities and metropolitan areas from Stamford, Conn. to Dallas, Tex. have felt it as well. Supermarkets need to worry that they don't follow department stores into retailing oblivion, with their overblown debt service

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SUPERMARKET BUSINESS
instore BUSINESS

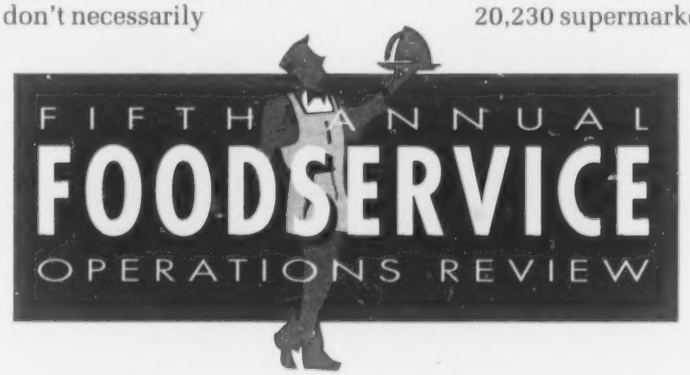
STILL COOKING AFTER ALL THESE FEARS

Retailers were afraid the recession would stifle foodservice sales. But the second straight year of better-than-20% growth proved that even for the thriftly, time is money.

The old saw about supermarkets surviving hard times because "people have to eat" may be ripe for a new wrinkle. A more timely truism may be that "People have to eat, but they don't necessarily have to cook."

In July of 1991, SUPERMARKET BUSINESS reported that even in the face of such severe recession, supermarket foodservice would not fade away, but would in fact continue growing.

A year later, it appears that consumers have indeed said "the recession be damned, we want—no, we need—our supermarket foodservice!"



DAVID LITWAK AND NANCY MALINE

For the second consecutive year, foodservice sales through supermarkets increased by more than 20%. In fact, volume through the industry's deli/prepared food operations was up by a juicy 29% in 1991, topping the previous year's healthy 22% upswing.

The percentages translate to total supermarket foodservice sales of $6.11 billion in 1991, up dramatically from $3.88 billion just two years before.

Why are the sales numbers so strong alongside very little real growth in total supermarket sales, and less than sparkling results for other segments of the foodservice industry, including fast food outlets and other restaurants?

Part of the answer lies in sheer unit growth. In 1991, 20,230 supermarkets had prepared foods programs aligned with their instore deli operations. That meant that 92% of the stores with service delis were offering prepared foods in those sections.

Some 7% of those foodservice programs were new last year, meaning that 1,353 of the nation's supermarkets offered prepared foods to their customers for the first time in 1992.

Despite the rise of instore restaurants, cafeterias and snack bars, supermarket foodservice remains largely a production of the deli department. Nearly 70% of all prepared food sales are transacted in the delis, and where instore eateries exist, they too are generally run by deli management.

This infusion of new foodservice departments was complemented by significant sales hikes in existing units. In 1990, supermarkets in the prepared food business averaged $4,798 in weekly foodservice sales—last year the number jumped to $5,808, an increase of 21% in weekly sales per store.

PREPARED FOODS CENSUS

That the overwhelming majority of deli sections now offer prepared foods reflects the popularity of these programs. Ninety-two percent of all instore delis offer prepared foods, with most departments offering wares both hot and cold. Historically, hot foods have had the edge in terms of deli offerings. But refrigerated items were also "hot" this year, with 82% of operators offering both, and they may be about to overtake the heated varieties.

Prepared foods can boast over $6 billion sold in 1991, giving traditional fast food outlets something to chew on. This represents an improvement of nearly 30% over the previous year's foodservice sales. Weekly sales averaged $5,808, which boils down to approximately $1,000 more per week compared with 1990.

The 2.9% share of store sales credited to prepared foods must be weighed along with the category's high profitability. Foodservice kicks in an average of 6.4% of overall store profits, by virtue of its high (52.7%) gross margin.

1991 Annual Sales $6.11 Billion

UP 29.7%

1990 Annual Sales $4.71 Billion

Prepared Foods Sections

	Total Units With Instore Delis Selling	% of Supermarkets With Delis Selling Prepared Foods
Any Prepared Foods (hot or cold)	**20,230**	**92%**
Hot Foods	**18,030**	**82%**
Refrigerated Prepared Foods	**18,045**	**82%**

7% of these stores started selling prepared foods in 1991.

Sales & Profits

Prepared Foods Share of Total Store Sales

Mean **2.9%** Median **3.0%**

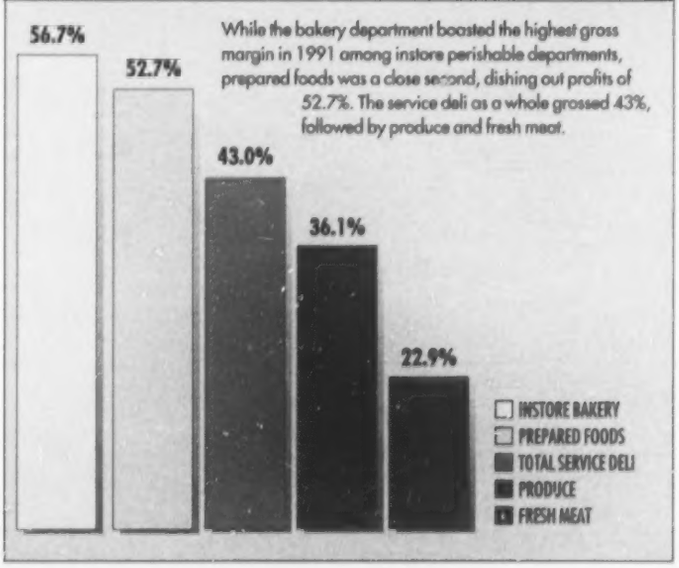
Contribution of Prepared Foods to Store Profits

Mean **6.4%** Median **8.0%**

Average Weekly Sales	Mean **$5,808**	Median **$6,200**
$4,000 or Less		**10%**
$4,001 – $5,000		**40**
$5,001 – $6,000		**43**
$6,001 or more		**7**

Average Gross Margins	Mean **52.7%**	Median **48.0%**
Less than 40%		**1%**
40 – 50%		**22**
51 – 55%		**38**
56 - 59%		**35**
60% or more		**4**

GROSS MARGINS OF VARIOUS STORE DEPARTMENTS



While the bakery department boasted the highest gross margin in 1991 among instore perishable departments, prepared foods was a close second, dishing out profits of 52.7%. The service deli as a whole grossed 43%, followed by produce and fresh meat.

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And the vast majority of operators enjoyed increased sales, with 70% reporting foodservice volume gains, and flat or down years experienced by only 20% and 10% of respondents respectively.

The average weekly increase among supermarket foodservice operators was $1,010. Multiplied by a base of 20,230 stores, that figure spirals to $1 billion in additional identical store sales industry-wide for the year. Factoring in the volume of the 1,353 new departments added during the year brings the total foodservice sales up to the $6.11 billion mark.

On the most basic level, supermarket foodservice sales reflect the consumer's continuing demand for good, convenient foods—a demand the industry is satisfying. But while this explains the category's basic appeal, its exceptional rate of growth over the past two years implies additional factors.

Also at work here is the fact that, increasingly, these sections have literally become staple departments for more and more families. As SUPERMARKET BUSINESS predicted several years ago, the deli counter and self-service case have in fact worked their way into the family's eating rotation.

For the busy two-income household, it used to be take-out chicken one night and pizza the next, with a frozen entree a third night. Now it is more likely that the chicken or pizza will be from the supermarket deli, and that the frozen entree has been replaced by a selection from the deli's prepared entree case.

Once the consumer accepted supermarket fare as an agreeable alternative to free standing take-out or fast food outlets, the deli counter became a destination unto itself, instead of either a "pass-by" or center for impulse sales.

With the ongoing consumer need for convenience coupled with health and diet consciousness, supermarket foodservice departments have evolved as they've grown.

As for distribution within the department, entrees were the largest gainers in 1991. Both hot and cold varieties increased their shares of sales by 1.1%, with the former currently at 11.7% of prepared food sales, and the latter occupying a 10.1% share.

This indicates that consumers are more willing to buy more sophisticated," middle of the plate" items from the supermarket. No longer is the supermarket prepared foods program a collection of fast food-type products. All indications are that entree items, especially in refrigerated form, will continue to post substantial growth progress for supermarket operators in the next few years.

The opposite was the case for many stores' sandwich pro-

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grams during 1991. Sandwiches lost some of their sales share, falling to 13.8% from 1990's 14.2%.

While the sandwich business is still very important to many foodservice programs, its drop in share, viewed alongside the gains chalked up by entrees, illustrates that supermarket foodservice sections have become more of an "evening sell." Again, it's an example of main meal acceptance by consumers.

At the same time, consumers appear to be shying away from some of the old favorites, tangible evidence of the movement to healthier eating. Fried and barbecued chicken has always constituted the largest prepared food category, and it remains so. However it lost some of its sales share last year, dropping to 16.9% of total sales, as many people abandoned deep-fried foods and heavy barbecue sauces.

Some of those consumers who remained devotees of store-prepared chicken switched to chicken that is either fried in lighter, lower-cholesterol oils, barbecued with lighter sauces and seasonings, prepared skinless or broasted. Many retailers have begun offering chicken prepared in these ways as an alternative.

Pizza, everybody's favorite fun food, is rapidly becoming the most popular item in the supermarket prepared foods aisle. Currently the number two item, its 15.9% share is closing in on chicken. The supermarket is beginning to compete successfully with the likes of Domino, Pizza Hut and the local pizzeria, especially in cases where a pizza meal has been planned in advance.

The supermarket foodservice program has been successful in parlaying all of these variables into sales. Not only has it increased its overall sales dramatically, but it has increased its contribution to the store as a whole.

Sales of prepared foods now account for an average of 2.9% of the total sales of the stores that offer them. This is up from 2.7% in 1990. More important, these sales generally contribute about 6.4% of the store's profits. The section's gross margins average 52.7%, second only to the instore bakery storewide.

With the convenience appeal of prepared foods balanced against economics, the pivotal question before foodservice operators is whether to make their own wares or buy them.

In the days when most retailers were just getting into foodservice, the initial inclination was to buy their products from a foodservice purveyor. Then came the move to cut off the fast food operators on a platform of quality, through better assortments of foods produced on-site. Headhunters were sent to scour restaurant kitchens for chefs ready to defect to the supermarket.

Multi-store operators took the lead in developing standardized prepared foods pro-

PREPARED FOODS: SALES, LABOR, PRODUCTS

1991 was an excellent year in the prepared foods business. Seventy percent of supermarkets reported volume increases, and those gains averaged 23.1%. Only 10% experienced a drop in prepared food sales. The remaining 20% say business was status quo.

Labor costs as a percentage of sales was somewhat higher in 1991 than in the previous year (28.6% vs. 24.8%), due in part to increased instore preparation. This cost should be offset down the road with the trend moving from instore to supplier preparation, as well as a shift toward greater self-service emphasis. Additionally, fewer departments are employing trained cooks (14.6% compared with 17.8% in 1990). Prepared chicken remained first on the foodservice shopping list in 1991, although it was a scratch less popular than in 1990 (16.9% vs. 18.6%). Pizza, representing the second largest slice of the prepared foods pie, is ordered nearly as often (15.9%) as chicken. Sandwiches round out the top three foodservice items with a 13.8% share of sales. The "hot" items to watch are both hot and cold prepared entrees, which continued to pick up share in 1991.

Changes in Dollar Sales of Prepared Foods (1991 vs. 1990)

Average Reported Increase **23.1%**

Higher	**70%**
No Change	**20**
Lower	**10**
TOTAL	**100%**

How Much for Labor? Mean **28.6%** Median **25.0%**

(As percent of prepared food sales)

Less than 15%	**6%**
15 – 24	**42**
25 – 34	**45**
35 and over	**7**
TOTAL	**100%**

Percent of Total Prepared Foods Through...

Service Deli	**68%**
Separate Hot Service Counter	**7**
Self-service Refrigerated Case	**25**
TOTAL	**100%**

Is the Foodservice Distributor Owned By or a Division of Grocery Wholesaler? Yes **10%** No **90%**

What Percentage of Instore Cooks Are Trained Chefs? **14.6%**

DISTRIBUTING THE FOODSERVICE SALES DOLLAR (%)

grams that could be rolled out chainwide. Central kitchens were evaluated and, in some cases, implemented. But when the dark specter of product safety liability reared its head, many operators quickly pulled back to the "let's buy it" mode.

Today, just over two-thirds of foodservice merchandise is bought from specialized suppliers, 28% is made instore, 4% comes from central company kitchens, and perhaps 1% emanates from local restaurants or caterers.

While the use of foodservice suppliers is still preferred, instore cooking is on the rise. A year ago, 72% of the prepared products were bought from outside suppliers, and just 24% was made in retailers' kitchens.

And yet, based most likely on the cost efficiency issue, 60% of our survey respondents predicted that there will once again be a greater emphasis on buying from outside in the future. Accordingly, the employment of trained cooks seems to be diminishing. About 15% of the instore staffs were professional chefs in 1991, compared with almost 18% in 1990. The move to more use of purchased foodservice items combined with in-house training efforts should bring this down even further.

The increase in instore cooking has, of course, had a negative effect on labor costs. In 1991, the average foodservice operation spent 28.6% of its sales to cover labor, up from the 24.8% of a year ago.

Along with competition, labor ranks as the biggest challenge facing supermarket foodservice operations, according to retailers. This applies to the difficulty of finding and training high quality workers, as well as the strict cost factor. Here again, both elements will in all likelihood speed the emphasis on the use of outside suppliers, as well as more self-service merchandising.

At present, about 25% of prepared foods sold in supermarkets are selected by customers from self-service cases, up from 23% a year ago. A majority of retailers (54%) believe that their operations will include more self-service merchandising in the future.

Aside from labor and competition, quality was the other major issue that operators said they grappled with. Quality, which includes the elements of freshness, taste, product integrity and safety, has long been both a source of pride and worry for supermarkets.

The issue is critical, because the perception of higher quality has brought many consumers into the supermarket at the expense of the fast food outlet. Moreover, the quality/convenience tandem are always revealed by consumer research to be the two major reasons for shopping supermarket prepared foods sections.

No longer just a place to buy food and go, the supermarket has become, in many cases, a place where the customer can sit down and enjoy some of his or her purchases, or where a worker can pause to enjoy a quick lunch before heading back to the office.

Almost 17,000 supermarkets now boast sit-down eating areas, ranging from small "nooks" with a few chairs and tables to cafeteria-style facilities, to full-blown restaurants.

About 500 snack bars were added in 1991, bringing the total number in operation to 3,079, some operating as free-standing food vending stations

PREPARED FOODS MERCHANDISING & PRODUCTION

According to retailers, most (67%) of the food preparation is performed by foodservice suppliers. Remaining food prep is done instore from scratch (33%). These methods are apparently satisfactory, with 60% of operators anticipating that reliance on outside suppliers will increase further in the future, with the curtailment of on-site preparation alleviating the necessity of trained chefs on staff. As for supply, foodservice distributors are the primary purveyors (73%) of prepared food items. The rest of the items are taken from store inventory (19%) or provided by the wholesaler (8%).

How Food Products Are Produced

Bought from Foodservice Supplier	67%
Instore from Scratch	28
Bought from Local Restaurant/Caterer	1
Central Company Kitchen	4
TOTAL	100%

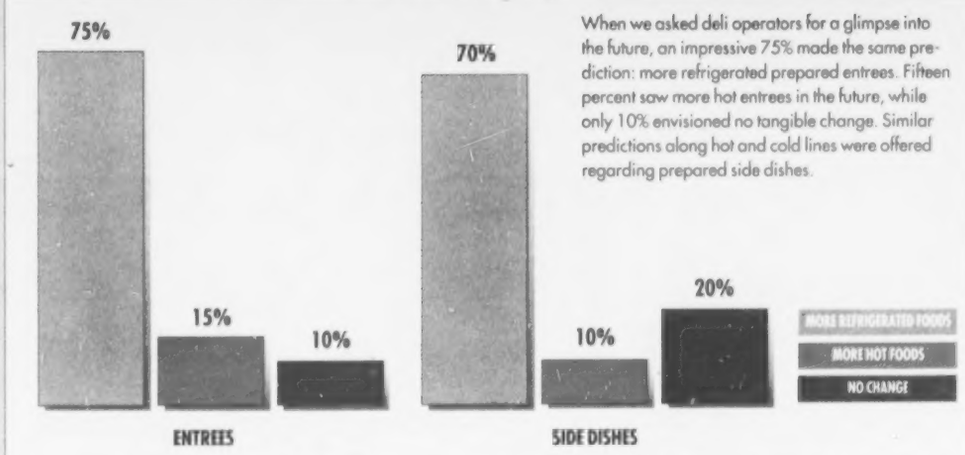
In Which Direction Do You See Foodservice Preparation Going in the Future?

More Instore	30%
More Central Kitchen	10
More Foodservice Supplier	60
TOTAL	100%

Sources of Foodservice Products and Ingredients

Foodservice Distributor	73%
Grocery Wholesaler	8
Taken from Store Inventory	19
TOTAL	100%

TRENDS IN PREPARED FOODS MERCHANDISING YOU EXPECT IN THE FUTURE



When we asked deli operators for a glimpse into the future, an impressive 75% made the same prediction: more refrigerated prepared entrees. Fifteen percent saw more hot entrees in the future, while only 10% envisioned no tangible change. Similar predictions along hot and cold lines were offered regarding prepared side dishes.

Today, just over two-thirds of foodservice merchandise is bought from specialized suppliers, 28% is made instore, 4% comes from central company kitchens, and perhaps 1% emanates from local restaurants or caterers.

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OPERATIONS REVIEW

within the stores, and others attached to the deli and/or bakery departments.

Full-fledged cafeterias and restaurants are the exceptions in supermarkets, but they are beginning to make their presence known. Currently there are 571 in operation. These sections tend to be destinations unto themselves, and are often located in stores where strong lunchtime or breakfast trade is characteristic of the community.

Snack bars and cafeterias are attractive choices for many operators because they help draw customers and keep them in the store longer, and enjoy high gross margins as well. The average gross for a snack bar in a supermarket is 51.6%, while the average in-store cafeteria does an even healthier 61.3%.

Another foodservice offering that is high on the margin scale is off-premise catering, with average margins of 58.3 percent. Whether providing simple party trays, or more elaborate selections, many retailers are finding catering services to be both profitable, and a good way to extend the influence of their foodservice sections beyond the quick, convenient meal.

An emerging development to watch is the "food court" concept, and instances of individual fast food franchises being established within the walls of supermarkets. However to date, less than a single percent of the foodservice sections in supermarkets are either leased operations or franchises.

EATING AREAS

An increasing number of retailers are providing customers with convenient places to enjoy their purchases. Seventy-seven percent of all supermarket delis feature eating areas. However, only 3% of the stores have actual restaurants, probably because they require a fair amount of space (1,433 square feet, on average).

Snack bars and restaurants/cafes add to the operational details confronting deli managers, but it appears the burden is well justified by incremental profitability. These eateries boast high gross margins (better than 50%), and operators feel that they help to enhance their stores' overall image and attract customers.

At present, very few supermarket foodservice operations (less than 1%) involve outside fast food or restaurant organizations.

Most stores (98%) use their newspaper ads to promote foodservice departments. Sampling (90%), store circulars (85%) and point-of-purchase materials (55%) are also used extensively.

Stores with Eating Sections

	Number of Supermarkets	% of Stores With Delis that have:
Snack Bars	3,079	14%
Sit Down Restaurants/Cafes	571	3%
Sit Down Eating Areas	16,932	77%
Drive-through Areas	–	(less than 1%)

Average Gross Margins

Snack Bars	51.6%
Restaurants/Cafeterias	61.3
Off-premises Catering	58.3

How Sections Are Managed

	By Deli Dept.	As Separate Section
Snack Bars	100%	–
Restaurants/Cafeterias	80%	20%
Off-premises Catering	98%	2%

Do You Consider Instore Eating Facilities:

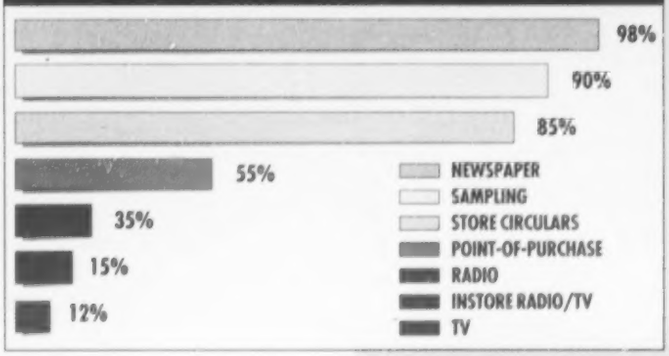
Image/Traffic Builders	12%
Profit Centers	0
Both	88
Total	100%

Percent of Foodservice Sections That Are Franchised Fast Food Outlets Mean <1%

Percent of Foodservice Sections That Are Leased to Local Restaurateurs Mean <1%

Average Size of Sit-Down Restaurants/Cafeterias: 1,433 sq. ft.

ADVERTISING AND PROMOTION OF INSTORE FOODSERVICE

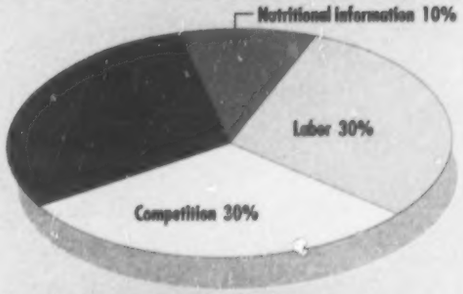


ISSUES

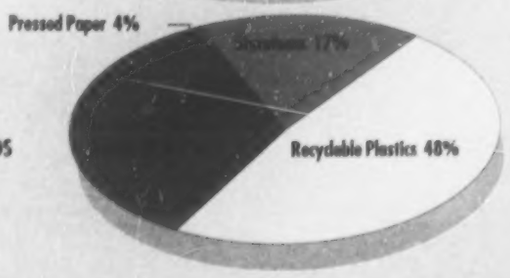
Retailers' biggest concerns concerning foodservice operations are labor and competition, each cited by 30%. In addition, quality (20%) and nutrition (10%) concerns underscored the ever-present food safety issues.

Foodservice operators are also preparing for stricter recycling laws, since roughly half (48%) of the packaging now being used is made of recyclable plastic. A third of the plastic packaging remains non-recyclable (31%) while Styrofoam is headed for the endangered species list; only 17% of current packaging uses the material. Pressed paper, currently constituting only 4% of packaging, is expected to be the most popular replacement for Styrofoam, because it is a lower-cost alternative to plastics.

MOST IMPORTANT SUPERMARKET FOODSERVICE ISSUES



PACKAGING USED IN PREPARED FOODS



SUPERMARKET BUSINESS
NONFOODS BUSINESS
INSIGHTS FOR MANAGEMENT AND THE GM/HBA SPECIALIST

MINI vs. MICRO
A PHOTO FINISH

What's the best configuration for instore film processing, the proven mini-lab, or the newer micro-lab? Both do the job, but offer different benefits, as Randall's and Hannaford discovered.

BY DAVID VACZEK

There was a time when supermarkets offering photo development were more than satisfied with the "out-lab" business. And why not? It provided repeat, high-margin, high-ticket sales in service cubbies as small as 16 square feet.

But the grocery chains began to sense a threat to that business, when other merchants, including drug chains, discounters and wholesale clubs, saw that consumers were willing to pay a few dollars more for same-day service, and began installing instore labs.

Those who jumped in found that a film/photo department built around a mini-lab installation projected an image of professionalism in the photo business. In addition to helping them capture the growing "one-hour" demand, the attention and traffic drawn by the new configurations also boosted their stores' out-lab sales as a bonus.

With that awareness came impressive development by retailers over the past five years. By 1990, supermarkets, drug stores and discount stores were operating about 2,000 of the 14,000 mini-labs doing business nationwide, according to Photo Marketing Association estimates.

More recently, the emergence of micro-labs has added another new dimension to the business of in-store processing. By collapsing the mini-lab's film processing and photo processing machines into one box, the micros offered a significantly smaller foot print.

Perhaps more importantly, they are said to be easy to use, and thus require less training and labor in their operation, a concern in a labor-tight market place where many retail chain employees are students and elderly people working part-time.

Wholesale processor Qualex has barreled into the one-hour business with its "ExpresStop" "turnkey" program for retailers, in which Greytag and Noritzu micro-labs are leased to the retailer along with a comprehensive program of support service and materials.

The success of a retailer's mini-lab or micro-lab installation is contingent on many factors, not the least of which is the retail pricing that markets will support. Prices vary from market to market and even from zone to zone within markets, as stores compete for both business and non-business customers.

A micro-lab, whether purchased or leased, offers a lower up-front cost, but the retailer is committing to a lower-capacity machine which may or may not handle the roll volume the store generates.

Complicating the decision is the fact that technology will likely continue to evolve, producing smaller, more automated, and easier-to-use micro and mini machines.

Both Randall's Foods in Houston and Hannaford Bros. of Scarborough, Maine have offered customers instore processing services for several years. But their approaches differ, with one favoring departments built around mini-labs, and the other committed to micro-labs.

Here are the reasons behind their respective strategies.

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RANDALL'S

A VOTE FOR MICRO MARKETING

Mini-labs were at the industry's cutting edge when Randall's Food Markets, Inc. began installing the first of six of the labs in Houston stores four years ago. But today, a new picture of the film/photo business is developing at the chain.

Since November, a sizable percentage of exposures made for customers paying for one-hour service have been cranked out by Noritzu micro-labs. Bill Harris, Randall's vice president for non-foods, likes the picture he sees emerging in the micro-lab program.

Though the labs process only the 35mm format, and in only a single size (four inches by six inches), Randall's has found they meet about 80 percent of customers' demand for one-hour processing. And those sales materialize in a space about one-eighth the size required for mini-lab departments, Harris says.

But the main advantages have been noted on the cost side. Labor costs with the user-friendly micros could be as low as a quarter of the tab for a mini-lab installation. And Randall's avoided the large equipment and lease-hold investment required for the mini-lab, by leasing the micro machines from Qualex in the wholesale processor's "turnkey" program. But even if the retailers opts to purchase the micro units, the cost will be a third that of mini-labs, says Harris.

"With the mini-labs, you are offering services that are nice, but are they really profitable?" Harris says, noting that customer requests for the less popular print sizes or for special services such as photo enlargement can be handled through the "overnight" service.

"The micros perform basically the same function, for 80 percent of the business. I think they're the wave of the future; satisfying the need for one-hour processing, with less labor," Harris says.

Harris has micro-labs in 11 Randall's stores currently. Labor costs are held down as the "walk-away" ease of use has allowed them to be operated by employees who are also committed to other jobs. In the Randall's stores, the labs are sited adjacent to the video departments where service personal are already employed.

Though the labs process only the 35mm format, and in only a single size (four inches by six inches), Randall's has found that they meet about 80% of customers' demand for one-hour service.

The video desk associates operate the Noritzu micro-labs, which, by combining photo processing and printing in one box, eliminate the need to retrieve processed film for loading into a separate printing machine. Correction of print color and density, handled by the associate on a keyboard in many retail mini-lab installations today, is accomplished by the machine.

The Randall's micro-lab stores have found that the customer flow for one-hour photo service dovetails well with that of the video department: film processing demand is heaviest from 10 a.m. to 2 p.m., with demand for video service strongest from 3 p.m. to 9 p.m.

The micro-lab has been described by vendors, which include Greytag and KIS, the French owner of the PHOTO-GO micro, as a "foot-in-the-door" machine; the retailer uses the micro to build demand for one-hour business, then graduates to a higher-capacity mini-lab to handle the demand.

Harris has found, though, that the stores can "pretty comfortably" offer the "one-hour" service with the micros. The small labs have sufficient capacity in most cases to handle one-hour demand, which averages about 25 percent of the rolls processed at Randall's. Processing up to four rolls at a time, with 25 minutes to clear each one, the Noritzu lab prints seven rolls in an hour. That's a sufficient rate even at peak demand, which can exceed 50 rolls a day.

Selling "one-hour" rolls at $9.99 for 24 exposures, Harris says Randall's' volume today provides an adequate return on the investment, which includes paying Qualex a monthly lease cost and a fee for each exposure printed.

Harris feels that micro-lab installations provide enough in-store visibility to tell customers Randall's is committed to the business; whole- sale development volume has increased in double-digits in stores with labs.

Randall's, meanwhile, vigorously pursues such business clientele as law offices, engineering companies and real estate firms, which account for 60 percent of cur-

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HANNAFORD

A MINI-FOCUS ON THE IMAGE

When an amateur picture-taker walks into a Hannaford Bros. supermarket with his color film rolls of junior's graduation or of the family picnic tucked in his pocket, he should be hit with a comforting sales message ... namely that he can trust the store with his irreplaceable photos, says Brad Wirth, photo specialist for the Hannaford Bros. Co.

Projecting a professional image that fosters such customer trust is a key element of Hannaford's strategy for its film/photo business. Its Shop 'N Save stores create a picture of expertise with their "Photo Central" film departments. Hannaford's 230-square-foot photo centers, in 11 supermarkets to date, feature a full-service range of film development, along with the sale of photo-related items including film, cameras, picture frames.

White-lab-coated technicians, who are dedicated to the film centers, use Fuji mini-lab equipment, including a film processor and paper printer processor, to provide prints in all sizes up to 6 inches by 8 inches (presently excluding wallet size) for 35mm and 110mm film formats.

The labs can print photo enlargements. They process film in black and white, meeting the occasional demand of business customers. Photo-printing on tee shirts, mugs and puzzles is offered on an out-lab basis. "Photo Central" today is experimenting with photo imposition on greeting cards, which would be offered with a maximum two-day turnaround compared with the several-week wait typically required for the service through a wholesale lab, says Wirth.

"You have to show you are in the business of developing pictures. A full-service department gets more attention. It establishes a stronger presence within your store, with better service levels, variety and quality. That's how you build one-hour roll volume." With a photo department built around a mini-lab, you can give 100 percent to the category," Wirth says.

Hannaford's 230-square-foot photo centers feature a full-service range of film development, along with the sale of photo-related items.

Hannaford installed its first mini-lab in an Albany, N.Y. store two years ago. After a testing period, it then rolled out the ten others, starting in the fourth quarter of 1991.

Plans are to put more labs into select new stores in favorable markets, including those in which stores enjoy sizeable tourist and/or business trade, and in units whose current overnight processing business is strong.

The chain entered the instore processing business to go after the growing one-hour business, and to profit through increased overnight business and the lucrative sale of photo-related products. The third reason was defensive: to protect a high-margin, high-profit overnight business that was increasingly threatened by other retailers who were installing their own in store departments in establishing high-profile presences in the photo busi-

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RANDALL'S

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rent volume.

Regarding inventory and maintenance expenses, Harris believes the Qualex program is the lowest cost source for these materials, and that's reflected in the margins Randall's earns from Qualex-developed rolls. "There's no way you can purchase with the efficiencies of a high-speed lab," said Harris.

By sending out popular, three-inch print orders to Qualex in addition to "overnight" service, both of which are priced dollars less than "one-hour" 4 by 6 prints, the stores also save on labor costs and equipment wear and tear.

Qualex delved into the in-store processing business about a year-and-a-half ago as a strategic move to cater to the growing demand for one-hour and same-day processing at retail stores. The program was also seen as a means for Qualex to protect its overnight business, which retailers might be tempted to run through their high capacity labs during idle periods.

Randall's experience proves the advantages of the Qualex micro-lab-based program, argues Tom Broderick, general manager, on-site processing division.

"With a micro-lab you can handle anywhere from 30 to 60 rolls a day. The average mini-lab today is doing less than 40 rolls a day. Our program allows the retailer to generate tremendous profit per square foot, while Qualex takes care of many of the hassles," says Broderick. ■

"With the mini-labs, you are offering services that are nice, but are they really profitable?" Harris says, noting that customer requests for the less popular print sizes can be handled "overnight."

HANNAFORD

Continued from page 56

ness, says Wirth.

The new photo departments had to stand on their own as profit centers, meaning that sales and profits would be weighed against the total costs to obtain a true picture of the investment performance. The costs include the equipment and lease-hold improvements, as well as labor.

Though the program today is still, Wirth says, in its "infancy," the mini-labs are meeting the projected goals. The out-lab business in the one-hour stores has been boosted "substantially," as have sales of ancillary photo items. One-hour traffic is meeting projections. To handle the processing demand for one-hour, which is increased by a double-print program in which the stores give a second set of prints free, the chain in fact has moved from lower to higher-capacity mini-labs.

"There's no way we could do our present roll volume with a micro-lab," says Wirth, noting that the one-hour demand accounts on average for over 30 percent of rolls developed.

The labs practice zone pricing. A typical price for developing a 24 exposure roll of 35mm film in one-hour is $7.99. Overnight for that roll is $6.97. "The gross margin (on the one-hour service) is substantially higher to justify the cost of space and machines," Wirth notes.

The "Photo Centrals" are open 9 a.m. to 9 p.m. Each lab is staffed by a lab manager, a second full-time lab technician, and part-time help. "Labor is a big cost, but we try to be flexible in scheduling."

Wirth says marketing to business customers is a crucial element since real estate agents, police departments, and auto insurance companies can provide a steady core of demand. Hannaford details such perspective customers.

The everyday consumer cannot be taken for granted either. "Everybody's fighting for a piece of the pie. You have to tell people you're in the business, and educate the consumer. We have the foot traffic to go after this business," says Wirth. ■

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MINI/MICRO PAYBACK SCENARIOS

Retailers contemplating instore labs have to project the roll volume their stores will generate, and consider many costs. Discounts for volume purchasing of equipment and material may be a factor. Purchased equipment has a throwaway value. Leasehold improvements can be required. There will be inventory costs, waste incurred in film development, and the cost of prints rejected by customers. A typical program can yield double-digit returns, according to these scenarios, provided by Fuji Photo and Qualex.

This breakdown applies to a Fuji Compact II mini-lab, processing 40 rolls a day at an average retail price of $8.95, and Qualex's "ExpresStop" micro-lab program with a Noritzu unit processing 40 rolls a day at an average retail price of $8.95.

Monthly Costs/Return	Micro*	Mini**
Amortization	$ 800[1]	$ 1,295
Paper	2,352	5,200[2]
Misc.	100	N/A
Service	275	N/A
Labor	4,800	1,470
Utilities	200	100
Phone line	N/A	50
Total Cost	**$8,527**	**$8,115**
Return	$10,740	$10,740
Net pre-tax profit	2,213	2,625
Profit to sales	**21%**	**24%**

[1] $42,000 purchase price spread over five years
[2] @ $0.17 per print fee
* Source: Fuji photo Film U.S.A., Inc.
** Source: Qualex Inc.